Marian Dyer
Vice President-Federal Regulatory

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

September 1, 2000

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Ms. Magalie Salas
Secretary
Federal Communications Commission
Room TW-A325, The Portals
445 Twelfth Street, S. W.
Washington, DC 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC Communications, Inc., Transferee, (CC Docket No. 98-141)

Dear Ms. Salas:

Pursuant to Appendix C (Merger Conditions) regarding SBC Communications Inc.'s (SBC) compliance with the Conditions set forth in the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger, SBC submits herein the report of its independent auditor, Ernst & Young LLP, regarding the Company's compliance during the period October 8, 1999 through December 31, 1999.

Once SBC has had an opportunity to thoroughly conduct a review of this report and the auditor's work papers, SBC will be prepared to respond to or otherwise address any issues contained in them.

Sincerely,

Marian Dyer

Attachments

cc: Ms. Carol Mattey
Mr. Anthony Dale
Mr. Hugh Boyle
Mr. Mark Stephens

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SBC Communications Inc.
175 E. Houston Street
San Antonio, Texas 78205

Report of Management on the Effectiveness of Controls over Compliance With the Merger Conditions

Management of SBC Communications Inc. (SBC) is responsible for establishing and maintaining effective controls over SBC's compliance with the conditions set forth in Appendix C (Merger Conditions) of the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger[1] effective October 8, 1999. The controls are designed to provide reasonable assurance to SBC's management and Board of Directors that SBC is in compliance with the Merger Conditions.

Conditions 1 (Separate Affiliate for Advanced Services), 11 (Collocation Compliance), and 24 (Additional Service Quality Reporting) of the Merger Conditions are separately reported on by management and are not included in this report at the direction of the FCC.

SBC has assessed its controls over compliance with the Merger Conditions, exclusive of Conditions 1, 11, and 24. Based upon this assessment, SBC believes that for the period, October 8, 1999 through December 31, 1999 (the Evaluation Period), its controls over compliance with the Merger Conditions were effective in providing reasonable assurance that SBC complied with the Merger Conditions except as to Condition 7, the "Carrier-to-Carrier Performance Plan."

The processes used to produce the performance measurements for the "Carrier-to-Carrier Performance Plan" during the Evaluation Period did not include certain controls over some data input functions, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis during the Evaluation Period. It should be noted, however, that the majority of the errors identified during the Evaluation Period were detected by SBC. This is evidence that overall, SBC had internal control processes in place.

While SBC acknowledges that some of the processes which produced the performance measurement results during the Evaluation Period did not operate at the desired level of effectiveness, they must be viewed in the context of that period. The number and complexity of the reportable measurements and associated calculations, required for Merger Condition reporting, state reporting and Competitive Local Exchange Carrier (CLEC) reporting purposes, posed significant developmental, implementation, and control challenges. Moreover, the reporting of performance measurement results in the fourth quarter of 1999 required substantial effort by SBC and impacted numerous business processes. Nonetheless, as the performance measurement reporting process has evolved and SBC has gained more experience with the measurements, SBC has continued to implement improvements and

[1] *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999).

refinements in the control process. For example, SBC has significantly increased its staff associated with performance measurement reporting and is committed to ensuring that all reporting is done in an accurate and timely manner. There are inherent limitations in any control, including the possibility of human error and the circumvention or overriding of the controls. Accordingly, even effective controls can provide only reasonable assurance with respect to the achievement of any objectives of controls. Further, because of changes in conditions, the effectiveness of controls may vary over time. SBC has determined that the objectives of controls with respect to compliance with the Merger Conditions are to provide reasonable, but not absolute, assurance that compliance with the Merger Conditions is achieved.

SBC is committed to seek opportunities to implement control improvements to ensure the accuracy of performance measurement results.

Report of Management on the Effectiveness of Controls
Over Compliance with the Merger Conditions
August 31, 2000

SBC Communications Inc.
Very truly yours,

Charles Foster
Group President-SBC National Operations

August 31, 2000

SBC Communications Inc.
Very truly yours,

James W. Callaway
James W. Callaway
Group President–SBC Services

August 31, 2000

ERNST & YOUNG

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100 West Houston Street
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Report of Independent Accountants

To the Management of SBC
Communications Inc.

We have examined management's assertion that SBC Communications Inc.'s (the Company's) controls over its system for complying with the Merger Conditions (Control Process) were effective during the period October 8, 1999 through December 31, 1999, in providing reasonable assurance that the Company is in compliance with the conditions set forth in Appendix C (Merger Conditions) of the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger[1]. This assertion is included in the accompanying report by management titled, "Report of Management on the Effectiveness over Compliance with the Merger Conditions." That assertion at the direction of the FCC excludes Conditions 1, 11 and 24 from the Control Process. Management is responsible for its controls over its Control Process. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the controls over the Company's Control Process, testing and evaluating the design and operating effectiveness of those controls and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the controls over the Control Process to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the controls may deteriorate.

[1] *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999).

In our opinion, management's assertion, that it believes that the Company's controls over the Control Process (which excludes Conditions 1, 11 and 24) are effective in providing reasonable assurance that the Company complied with the criteria promulgated in the Merger Conditions for the period October 8, 1999 through December 31, 1999 (the Evaluation Period), is fairly stated, in all material respects, except as to Condition 7 regarding performance measurements as discussed below.

As noted in management's assertion, the lack of certain controls over input data accumulation and operation of selected system and detect controls contributed to the need to restate certain data reported for the Evaluation Period and modify the performance measurement calculation process on a prospective basis.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

August 31, 2000

SBC Communications Inc.
175 E. Houston Street
San Antonio, Texas 78205

Report of Management on Compliance With the Merger Conditions

Management of SBC Communications Inc. (SBC) is responsible for complying with the conditions set forth in Appendix C (Merger Conditions) of the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger[1] released October 8, 1999 (Merger Close Date). Management is also responsible for establishing and maintaining effective internal control over compliance with the Merger Conditions.

Management has performed an evaluation of SBC's compliance with the requirements of the Merger Conditions as of December 31, 1999 and for the period October 8, 1999 through December 31, 1999 (the Evaluation Period). Based on this evaluation, we assert that during the Evaluation Period, SBC complied with all requirements of the Merger Conditions considering the interpretation in assertion 26b and except as specifically noted in assertions 7a, 7b, 26c and 26d. In addition, as summarized below SBC provides further information regarding compliance with the Merger Conditions.

Promoting Equitable and Efficient Advanced Services Deployment

1. Separate Affiliate for Advanced Services

At the direction of the FCC, compliance with this Condition is addressed in a separate agreed-upon procedures engagement performed by Ernst & Young LLP (E&Y).

2. Discounted Surrogate Line Sharing Charges

The Company[2] complied with the requirements of this Condition by offering the Surrogate Line Sharing discount for Unbundled Network Element (UNE) local loops on October 22, 1999. Unaffiliated telecommunications carriers[3] having unbundled loops in service were notified of the availability of the Surrogate Line Sharing discount on

[1] *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999).

[2] The word "Company" or "Companies" used throughout this assertion refers to SBC telephone operating companies, operating as Incumbent Local Exchange Carriers (ILECs), collectively, as follows: Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Bell Telephone Company; Wisconsin Bell, Inc.; Nevada Bell Telephone Company (Nevada Bell or NB); Pacific Bell Telephone Company (Pacific Bell or PB); The Southern New England Telephone Company (SNET); and Southwestern Bell Telephone Company (SWBT). The words "Ameritech Operating Companies" or "Ameritech states" used throughout this assertion refers to Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Bell Telephone Company; and Wisconsin Bell, Inc. collectively.

[3] For purposes of this assertion, the term "telecommunications carrier" shall have the same meaning as in 47 U.S.C. § 153(44).

October 27, 1999 via Accessible Letter. The requirement to notify unaffiliated Advanced Services providers as to the implementation of line sharing was not required during the Evaluation Period.

3. *Advanced Services Operations Support Systems (OSS)*

The Company complied with the requirements of this Condition in the following manner:

a. Provided telecommunications carriers access to the Southwestern Bell Order Retrieval and Distribution (SORD) interface and its Ameritech and SNET equivalents for pre-ordering and ordering Advanced Services.
b. Published a Plan of Record on December 7, 1999 to develop and deploy enhancements to the Company's existing Electronic Data Interface (EDI) or Datagate interfaces for pre-ordering or ordering Digital Subscriber Line (xDSL) and other Advanced Services components and filed notification with the FCC in accordance with the timelines specified in the Merger Conditions.
c. Made available through inclusion of appropriate terms in interconnection agreements with telecommunications carriers, a discount of 25 percent from the recurring and nonrecurring charges that otherwise would be applicable for unbundled local loops used to provide Advanced Services.
d. The Company provided access to telecommunications carriers to the same pre-order interface utilized by its retail operations and Advanced Services affiliates to obtain theoretical loop length information where required by this Condition.

Further development and deployment of the enhancements to the Company's existing EDI or Datagate interfaces for pre-ordering or ordering xDSL and other Advanced Services components were not required during the Evaluation Period.

4. *Access to Loop Information for Advanced Services*

The Company complied with the requirements of this Condition by providing telecommunications carriers with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that is available to the Company's retail operations, including the retail operations of its Advanced Services affiliates. The Company provided access to theoretical loop length information on an individual address basis prior to the Merger Close Date in all service areas where required by this Condition.

5. *Loop Conditioning Charges and Cost Studies*

The Company complied with the requirements of this Condition. Interim loop conditioning rates for xDSL loops were made available via Accessible Letters and Internet website postings to all telecommunications carriers in those states where rates had not been approved by a state commission. The Company did not charge for conditioning of eligible loops less than 12,000 feet and obtained telecommunication carrier authorization prior to proceeding with any conditioning that would result in charges. Although cost studies for state-specific rates for loop conditioning were not required to be filed during the Evaluation Period, state-specific rates were approved in Missouri and were under review in cost proceedings in Kansas and Connecticut during the Evaluation Period.

6. *Non-discriminatory Rollout of xDSL Services*

The Company complied with requirements of this Condition by classifying its wire centers as either urban or rural and identified the ten percent of urban and rural wire centers in each state having the greatest number of low income households. The Company, in consultation with state commissions choosing to do so, completed these identifications during the Evaluation Period.

Ensuring Open Local Markets

7. *Carrier-to-Carrier Performance Plan (Including Performance Measurements)*

The Company complied with the requirements of this Condition in the following manner:

a. On November 1, 1999 the Company provided the FCC with two months of performance measurement data (August and September 1999 data) in accordance with the Merger Conditions for the Southwestern Bell Telephone Company region and provided subsequent monthly performance measure reporting for the SWBT region beginning November 20, 1999. As explained in **Attachment A**, certain errors occurred in reported performance measurements as the Company transitioned into reporting information required as a result of the merger. Due to these errors, certain performance measurement data was restated and refiled and other programming errors were fixed prospectively. Accordingly the performance measurement data for SWBT as filed with the FCC, for the Evaluation Period was complete and accurate except as noted in **Attachment A**.
b. On December 1, 1999 the Company provided the FCC with two months of performance measurement data (September and October 1999 data) in accordance with the Merger Conditions for the Pacific and Nevada Bell regions and provided subsequent monthly performance measure reporting for the Pacific and Nevada Bell regions beginning December 20, 1999. As was the case for SWBT above, certain errors occurred in reported performance measurements as the Company transitioned into reporting information required as a result of the merger. Due to these errors, certain performance measurement data was restated and refiled and other programming errors were fixed prospectively. Accordingly the performance measurement data for Pacific and Nevada Bell as filed with the FCC, for the Evaluation Period was complete and accurate except as noted in **Attachment A**.
c. Official notice of performance measure implementation was delivered to the FCC within ten days of initial posting for both SWBT and for Pacific and Nevada Bell.

d. Performance measures for each month's results, for SWBT and Pacific and Nevada Bell, were reported via an Internet web site posting and transmittal of data to FCC Staff.
e. Performance measurement data was not required to be provided to the FCC for the SNET and Ameritech regions during 1999.

8. *Uniform and Enhanced OSS*

The Company complied with the requirements of this Condition in the following manner:

a. Submitted the OSS Process Improvement Plan to the FCC on October 6, 1999 identifying and assessing existing OSS and changes needed, in general, to implement the commitments required by this Condition.
b. The Company offered via Accessible Letters on October 18, 1999 and an Internet website posting on October 15, 1999, to develop direct access to SORD and Ameritech's and SNET's equivalent service order processing systems, and to develop enhancements to the existing Electronic Bonding Interface (EBI) for OSS that support maintenance and repair of resold local services or UNE and UNE combinations.
c. On November 1, 1999 the Company issued Accessible Letters and posted on its Internet website an invitation to telecommunications carriers to begin negotiations regarding the Company's uniform change management process.
d. The Company offered to amend its interconnection agreements to include the uniform change management process.

The requirements of this Condition regarding development and deployment of commercially ready, uniform application-to-application and Graphical User Interfaces (GUI) had no commitment requirements during the Evaluation Period. The requirements of the Condition regarding deployment of a software solution or uniform business rules to ensure consistency of telecommunication carrier-submitted orders with Company business rules had no commitment requirements during the Evaluation Period.

9. *Restructuring OSS Charges*

The Company complied with the requirements of this Condition by eliminating, effective with the November 1999 billing cycle, all charges for access to the Remote Access Facility and Information Services Call Center, and flat rate monthly charges for access to standard, non-electronic order processing facilities used for orders of 30 lines or less where electronic interfaces were not available. The Company informed telecommunications carriers of this fact via Accessible Letters on October 18, 1999.

10. *OSS Assistance to Qualifying Competitive Local Exchange Carriers (CLECs)*

The Company complied with the requirements of this Condition by adopting measures for assisting qualifying telecommunications carriers in using the Companies' OSS. On October 18, 1999, the Company informed telecommunications carriers via Accessible

Letters or an Internet website posting of the self-certification process allowing telecommunication carriers to assert that they qualify for assistance and of the availability, free of charge, of OSS expert teams. Telecommunication carrier training forums were held to discuss training and procedures that would be beneficial to qualifying telecommunications carriers.

11. Collocation Compliance

The Company complied with the requirements of this Condition in the following manner:

a. Prior to the Merger Close Date, both Ameritech Corp. and SBC Communications Inc. received attestation reports from their respective independent auditing firms. These engagements addressed the consistency of the methods and procedures developed, the tariffs filed, and/or amendments containing standard terms and conditions for collocation offered for inclusion in interconnection agreements, with the FCC's Collocation and Advanced Services Order[4].
b. Prior to the Merger Close Date, SBC retained Ernst & Young LLP to perform an examination engagement and issue an attestation report on the Company's compliance with the FCC's collocation requirements during the period from October 8, 1999 to June 8, 2000. On August 7, 2000, SBC issued its assertion and E&Y issued its attestation report regarding the Company's compliance.
c. Effective as of the Merger Close Date, the Company implemented a policy to issue refunds of 100% of the total non-recurring collocation costs to telecommunications carriers for collocation missed due dates in excess of 60 days.

12. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

The Company complied with the requirements of this Condition by making available to telecommunications carriers eligible service arrangements (i.e. interconnection arrangements or UNEs) to which the Company was a party either as the incumbent in its 13-state region or as a telecommunications carrier outside of its 13-state region. The Company informed telecommunications carriers of this availability via Internet website postings in October 1999. The Company posted approved out-of-region agreements to the Company's Internet website.

13. Multi-State Interconnection and Resale Agreement

The Company complied with the requirements of this Condition by making available multi-state interconnection/resale agreements. The Company informed telecommunications carriers of this availability via Internet website posting on December 7, 1999.

[4] *In the Matter of Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, First Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 4761 (1999).

14. Carrier to Carrier Promotions: Unbundled Loop Discount

The Company complied with the requirements of this Condition in the following manner:

a. Offered the unbundled loop discounts required by this Condition via Accessible Letters or an Internet website posting on October 15, 1999.
b. Established internal processes and procedures to ensure the Company's wholesale business units are responsive to telecommunications carriers' requests for the unbundled loop discount.
c. All interconnection agreement amendments adopting the discounts within 10 business days following the initial offer were filed simultaneously with the respective state commission no later than December 6, 1999.

The requirement to inform telecommunications carriers when certain percentages of the maximum number of available loops had been ordered by state was not required during the Evaluation Period as such percentages were not reached.

15. Carrier to Carrier Promotions: Resale Discount

The Company complied with the requirements of this Condition in the following manner:

a. Offered the resale discounts required by this Condition via Accessible Letters or an Internet website posting on October 15, 1999.
b. Established internal processes and procedures to ensure the Company's wholesale business units are responsive to telecommunications carriers' requests for the resale discount.
c. All interconnection agreement amendments adopting the discounts within the 10 business days following the initial offer were filed simultaneously with the respective state commission no later than December 6, 1999.

The requirement to inform telecommunications carriers when certain percentages of the maximum number of resold lines plus promotional end-to-end UNE combinations in service had been ordered by state was not required during the Evaluation Period as such percentages were not reached.

16. Carrier to Carrier Promotions: UNE Platform

The Company complied with the requirements of this Condition in the following manner:

a. Offered the UNE platform discounts required by this Condition via Accessible Letters or an Internet website posting on October 15, 1999.
b. Established internal processes and procedures to ensure the Company's wholesale business units are responsive to telecommunications carriers' requests for the UNE platform discount.

c. All interconnection agreement amendments adopting the discounts within the 10 business days following the initial offer were filed simultaneously with the respective state commission no later than December 6, 1999.

The requirement to inform telecommunications carriers when certain percentages of the maximum number of resold lines plus promotional end-to-end UNE combinations in service had been ordered by state was not required during the Evaluation Period as such percentages were not reached.

17. Offering of UNEs

The Company complied with the requirements of this Condition by continuing to make available all UNEs or combinations of UNEs offered as of January 24, 1999, under the same terms and conditions.

18. Alternative Dispute Resolution through Mediation

The Company complied with the requirements of this Condition by implementing, subject to state commission approval and participation, an alternative dispute resolution mediation process to resolve carrier-to-carrier disputes regarding the provision of local services. The Company posted the new alternative dispute language on the Companies' Internet websites on October 15, 1999.

19. Shared Transport in Ameritech States

The Company complied with the requirements of this Condition. On October 6, 1999, the Ameritech Operating Companies offered an amendment for inclusion in interconnection agreements to make interim shared transport available to telecommunications carriers in the Ameritech states. Telecommunications carriers were notified of the offering via Internet website postings. Where required, the Ameritech Operating Companies also filed state tariffs for interim shared transport prior to the Merger Close Date. The interim shared transport offering complied with the terms of this Condition and contained an offer to include a retroactive true-up provision in approved interconnection agreements. Prior to the Merger Close Date, as required, the Ameritech Operating Companies withdrew their proposal to the FCC to establish a separate transit service rate to be charged in conjunction with shared transport.

20. Access to Cabling in Multi-Unit Properties

The Company complied with the requirements of this Condition by offering to conduct a trial with interested telecommunications carriers in each of five large cities within the Company's service area in order to identify procedures and associated costs required to provide telecommunications carriers with access to cabling within multi-unit properties where the Company controls the cables. The Company posted this offer on its Internet websites on October 18, 1999. The Company offered the property owners, in writing, to build a single point of interconnection at a minimum point of entry when property owners or other parties own/maintain the cabling beyond the single point of interconnection to property owners/developers during the Evaluation Period as required by this Condition.

Fostering Out-of-Territory Competitive Entry (National-Local Strategy)

21. Out-of-Territory Competitive Entry (National-Local Strategy)

None of the requirements of this Condition were effective during the Evaluation Period.

Improving Residential Phone Service

22. InterLATA Services Pricing

The Company complied with the requirements of this Condition by not charging mandatory, minimum monthly or flat rate charges for interLATA service during the Evaluation Period.

23. Enhanced Lifeline Plans

The Company complied with the requirements of this Condition by offering, on or before November 5, 1999, to file a tariff for an Enhanced Lifeline plan comparable to the Ohio Universal Service Assistance (USA) Lifeline plan in the areas of subscriber eligibility, discounts and eligible services. The offer was made by letter to each state commission in the Company's service area (except Ohio) and copies of the offer letters were filed with the FCC. On November 5, 1999, the Company offered to extend the Ohio USA Lifeline plan in that state until January 6, 2003.

24. Additional Service Quality Reporting

On August 14, 2000 the FCC granted an extension of time to report on this Condition until December 31, 2000. Compliance with this Condition will be addressed in a separate assertion by the Company and a separate attestation report issued by E&Y.

25. NRIC Participation

The Company complied with requirements of this Condition by continuing to participate in the Network Reliability and Interoperability Council (NRIC) during the Evaluation Period.

Ensuring Compliance with and Enforcement of Conditions

26. Compliance Program

a. SBC complied with the requirements of this Condition by appointing a senior corporate officer as Compliance Officer. The Audit Committee of SBC's Board of Directors provided oversight of the Compliance Officer's responsibilities. SBC's Compliance Program was submitted to the FCC on December 6, 1999.
b. Notices provided to the FCC pursuant to specific notification requirements of the Merger Conditions were accurate and timely. In a letter dated February 7, 2000 from Charles Foster to David Solomon and Lawrence Strickling of the FCC and in its annual compliance report filed March 15, 2000, SBC disclosed one instance where a termination of a tariff offering was not filed within three business days of the effective date of an interconnection agreement between the Company and the Advanced Services affiliate[5]. In this instance SBC believed that such tariff changes did not need to be filed as explained in the aforementioned February 7, 2000 letter to the FCC.
c. On March 15, 2000, SBC filed an annual compliance report accurate to the best of its knowledge and belief at the time it was filed with the FCC, which detailed its compliance with the Merger Conditions for the Evaluation Period. On August 2, 2000, SBC filed an errata to the annual compliance report with the FCC, which included minor modifications and corrections of typographical errors, none of which impacted SBC's compliance with the Merger Conditions. Assertions 7a and 7b above reflect the results of SBC's on-going review and analysis of its compliance with the Merger Conditions that have not been included in the annual compliance report.

   As noted in assertion 24 above, on August 14, 2000 the FCC granted an extension of time to report on Additional Service Quality Reporting (Condition 24) until December 31, 2000. The accuracy of the annual compliance report as it relates to Condition 24 will be addressed in a separate assertion by SBC and a separate attestation report issued by E&Y.
d. Subsequent Events: The Company identified certain isolated bills in the year 2000 (60 days after initial billing which began late in the Evaluation Period), which contained some billing errors to telecommunication carriers. The occurrence in 1999 of discounts required by Merger Conditions were few in number due to the requirement of the telecommunications carriers to amend the various interconnection agreements. The Company has issued bill corrections to several affected telecommunication carriers and is continuing to review its billing procedures to prevent other errors.

[5] The words "Advanced Services affiliate(s)" used throughout this representation refers to the following companies, Ameritech Advanced Data Services of Indiana, Inc.; Ameritech Advanced Data Services of Illinois, Inc.; Ameritech Advanced Data Services of Ohio, Inc.; Ameritech Advanced Data Services of Michigan, Inc.; Ameritech Advanced Data Services of Wisconsin, Inc.; and SBC Advanced Solutions, Inc.

27. Independent Auditor

SBC complied with the requirements of this Condition by engaging an independent auditor deemed acceptable by the FCC prior to the Merger Close Date. The auditor selected, Ernst & Young LLP (E&Y), has not been instrumental during the past twenty-four months in designing all or substantially all of the systems and processes under examination in the attestation engagement.

The independent auditor submitted a preliminary audit program to the FCC for review on November 12, 1999 and informed the FCC of all matters required under the Merger Conditions during the Evaluation Period. SBC granted the independent auditor access to all books, records, operations, and personnel and engaged them to perform an agreed-upon procedures engagement regarding compliance with the Separate Affiliate for Advanced Services requirements of Section I of the Merger Conditions.

28. Enforcement

This Condition obligates SBC to extend the effective period of a Condition and/or to make voluntary payments for non-performance required by the Conditions. There has been no determination that SBC failed to comply with the Merger Conditions during the effective period of any Condition, and hence no enforcement action has been taken against SBC.

29. Sunset

There was no sunset of a Merger Condition during the Evaluation Period.

30. Effect of Conditions

This Condition does not impose affirmative obligations on SBC; rather, it states the relationship of the Merger Conditions to state law, and vice versa. SBC followed this guidance in interpreting and applying the Merger Conditions.

SBC Communications Inc.
Very truly yours,

August 31, 2000

Charles Foster
Group President-SBC National Operations

SBC Communications Inc.
Very truly yours,

August 31, 2000

James W. Callaway
Group President–SBC Services

Attachment A

Performance Measurement (PM) Restatements

a. **Data Extraction Errors** (Various SWBT PMs) – In order to populate the FCC compact disk (CD) and Competitive Local Exchange Carrier (CLEC) Online website, the Company extracts and modifies data from spreadsheets used to report performance measure results to the Department of Justice or state commissions. Data extraction errors occurred while transitioning to the modified report format requested by the FCC. The errors were detected by the Company and Evaluation Period results were restated when January, 2000 results were submitted to the FCC on February 22, 2000.

b. **Benchmark Errors** (SWBT PMs 1, 2) – The Company inadvertently used state commission benchmarks to report results to the FCC for certain levels of disaggregation related to two performance measurements during the Evaluation Period. The PM 1 error affected a single level of disaggregation and was corrected with the Company's restatement to the FCC on July 20, 2000. The PM 2 errors were detected and corrected by the Company and restated on April 17, 2000. Both PM 1 and PM 2 errors were isolated table input errors.

c. **Disaggregation Error** (SWBT PM 2) – This PM was not reported at the appropriate level of disaggregation during the Evaluation Period. This was an isolated data entry error that was detected and corrected by the Company and restated on April 17, 2000.

d. **Disaggregation Error** (SWBT PM 3) – This PM requires a disaggregation by service type and had been reported by system during the Evaluation Period. This PM was restated by service type and provided to the Federal Communications Commission on June 30, 2000 as an attachment to a letter to Ms. Carol Mattey, Deputy Chief, Common Carrier Bureau from Ms. Marian Dyer, Vice President, Federal Regulatory.

e. **Disaggregation Errors** (SWBT 4c, 12b, 12c, 17) - In a letter dated June 5, 2000, from Ms. Dyer to Ms. Mattey, SBC also acknowledged that several PMs had been reported in more levels of disaggregation than required in the Merger Conditions. As explained in the letter, these additional levels of disaggregation increased the usefulness of the reported data while not changing the results of the performance measures.

f. **Calculation Errors** (PB PMs 5b, 10b) – These PMs utilized manual processes which resulted in clerical errors in certain calculations. Controls were put into place to address these errors prospectively. These PMs were restated to correct these errors on August 31, 2000.

g. **Disaggregation Error** (PB PM 15) – This PM was not reported at the appropriate geographic disaggregations during the Evaluation Period. Results were initially reported at a statewide level in order to be consistent with all other Merger Condition performance measures. Results for this measure were restated to reflect market region results on August 31, 2000.

h. **Calculation Error** (NB PM 11a) - This PM was miscalculated during the Evaluation Period as a result of an isolated clerical input error. Results for this measure were restated on August 31, 2000.

i. **Data Extraction Error** (NB PM 13a) – The number of Unbundled Network Elements (UNE) which was used in the calculation of this measure was incorrect. The system used to derive the UNE count was changed during the Evaluation Period and resulted in the calculation of more accurate results. The Evaluation Period results were restated on August 31, 2000.

j. **Data Extraction Error** (NB PM 15) – Certain calculations within this PM were incorrect due to improper data extractions. This problem was detected and corrected by the Company and restated on August 31, 2000.

k. **Data Calculation Error** (Various PB PMs) – For certain PMs for which no benchmark had been established, a negative one was used as a placeholder, but some Z-score calculations used this value as a true benchmark. The affected PMs were restated on August 31, 2000.

l. **Disaggregation Error** (NB PM 1) – Data was inappropriately directed to the wrong levels of disaggregation. Results were restated on August 31, 2000.

m. **Data Extraction Error** (NB PM 19) – The Z-scores for this measurement were included on the data file provided to the Commission but did not appear on the website. Website results were corrected on August 30, 2000.

n. **Data Exclusion Error** (NB PM 4, 10) – The Z-scores for these measures were not reflected on either the data file provided to the Commission or the web site due to a programming error. The Z-score results were restated on August 31, 2000.

Performance Measure Prospective Changes

a. **Data Exclusion Error** (SWBT PM 9) – The calculation of this PM result did not include the time interval between the receipt of a request for loop information and the submission of that request to Outside Plant and Engineering during the Evaluation Period. Since the intent of the measure was to provide a parity measurement between the retail and wholesale sides of the business, SWBT believed that by including this additional time interval in the wholesale results, true parity would not be reflected. Further, the Company believed that data for this measure was to be obtained only from a mechanized source which allowed for both a consistent measurement of the interval and a consistent manner of data collection; however, SWBT could only derive the interval in question for wholesale through a manual process during the Evaluation Period.

This issue was first identified during discussions held between SWBT and the Texas Public Utility Commission (TPUC) Staff in December of 1999. Software which mechanized this process was implemented in January, 2000 and this allowed the time interval previously not collectable to be included from that point forward. Data is not available to restate December, 1999 results due to the inability to reconstruct that data interval.

b. **Data Exclusion Error** (SWBT PM 18) – The calculation of this performance measurement excluded billing information for facilities and Unbundled Network Element (UNE) charges during the Evaluation Period. The intent of the business rules, developed in conjunction with the TPUC, was to record billing timeliness for resale bills. Prior to the fourth quarter of 1999, facilities and UNE charges were not considered material due to the associated low order volumes involved. In addition, no desire for any billing measurements other than those associated with resale was expressed during discussions with the CLECs and TPUC during 1998 and 1999. It was these discussions that led to the development of this measure which was subsequently adopted and included as a Merger Condition performance measure. As the volume of UNE charges increased in late 1999 and in 2000, CLECs requested that the Company expand the performance measurement to include all electronic billing. The Company concurred with this request and the Texas business rules are being revised to include UNE and UNE-Platform charges (version 1.7 business rules).

c. **Data Exclusion Error** (SWBT PMs 4c, 7c) – The calculations for two PMs improperly excluded two market offices due to coding errors. SWBT corrected the programming code on June 30, 2000. This issue only occurred for the disaggregation of 5 dB loops. The disaggregation of 8dB loops, which constitutes the majority of the loops ordered, was not impacted by this error.

d. **Data Exclusion Error** (SWBT PM 1) – The calculation of this PM requires the manual input of data to record the time and date of service requests received from CLECs via fax. In certain instances, inaccurate time and date information was inadvertently input (e.g. the use of a standard time such as 2:07 instead of the military time of 14:07). A control process has been implemented to review all of these transactions. A report is generated daily by a group of service representatives experienced with the manual process. This group reviews the report to determine if there were any typographical errors made in the previous day's inputs. If typing errors are identified, i.e. a time or date is found to have been incorrectly entered, the representative corrects the data, notes what was changed and why, and reports the change to his/her manager. These quality checks, and overall quality checks, are performed daily with the service representatives involved in the manual process, and are designed to eliminate the manual errors.

e. **Data Exclusion Error** (PB & NB PM 19) – CLECs have the ability to notify the Company of system outages only during SBC Help Desk hours. As a result, system outages occurring outside of SBC Help Desk hours may not have been included in the calculation. With the introduction of a new Pacific Bell off hours reporting process on 2/1/00, this concern was prospectively addressed.

f. **Data Exclusion Error** (PB PM 1) – In certain instances, the time interval from the receipt of a fax to the time the information was entered into one of the order entry systems may have been omitted. This problem was addressed by 1) instituting training for all service representatives to insure that the fax transmittal date and time is input correctly and 2) implementing a mechanized solution in January of 2000 which directs the Decision Support System to utilize the correct data field.

g. **Data Exclusion Error** (PB & NB PM 9) – The calculation excludes the time between the initiation of a service request and the time that request was sent to the Outside Plant Engineer for loop qualification. Because CLECs in Pacific Bell and Nevada Bell did not utilize the loop qualification process to qualify loops prior to sending a service request, the calculation for this interval is taken after the Firm Order Completion (FOC) time has begun.

The service representative handling-time for loop qualification is captured at the beginning and end of the PM 1 (FOC interval) measurement. While loop qualification was a requirement of the xDSL product, CLECs were not dependent on loop qualification information to initiate service orders. Because CLECs did not pre-qualify loops, the initiation of the loop qualification process was the receipt of the Local Service Request (LSR)/Interconnection Service Request (ISR) which stimulated the wholesale service order. As service request handling is slightly different on the wholesale vs. retail sides of the business (i.e. no service request is sent for retail), SBC believes that the methodology utilized in Pacific Bell accurately measures parity.

The retail qualification process had a potentially longer interval between the response from Engineering and the actual distribution of the order. When an Engineering loop qualification response was received, the retail ordering process required the retail service representative to call the prospective DSL customer to negotiate speeds, due dates and pricing. When the Engineering response was received by the wholesale service representative, he/she placed the due date on the already written CLEC order which was sitting in "proof" (hold file), and distributed the order to the assignment and provisioning centers. The wholesale service representative then placed the loop qualification information on the confirmation screen of the CLEC ordering system, and the firm order confirmation was sent.

This issue was prospectively addressed by the implementation of the LoopQual system in March, 2000 which provides the CLECs with direct access to the loop qualification system thereby avoiding the time interval associated with service representative handling.

h. **Disaggregation Error** (PB PM 14) – This PM was not reported at the appropriate geographic disaggregations during the Evaluation Period. Results were initially reported at a statewide level in order to be consistent with all other Merger Condition performance measures. Results for this measure will be restated to reflect market region results during the first week of September, 2000.

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Report of Independent Accountants

To the Management of SBC
Communications Inc.

We have examined management's assertion, included in the accompanying Report of Management on Compliance with the Merger Conditions, that SBC Communications Inc. (the "Company") complied with the conditions set forth in Appendix C ("Merger Conditions") of the Federal Communications Commission's ("FCC's") Order approving the SBC/Ameritech Merger[1] during the period October 8, 1999 through December 31, 1999. Management is responsible for the Company's compliance with the Merger Conditions. Our responsibility is to express an opinion on management's assertion regarding the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. The requirements mandate compliance with the Merger Conditions including the filing of an accurate annual compliance report, providing the FCC with timely and accurate notice pursuant to specific notification requirements and providing telecommunications carriers and regulators with accurate and complete performance data. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

As indicated in assertions 1, 11 and 24 of management's assertion, the related Merger Conditions are excluded from management's assertion and are not reported upon herein. Condition 1 is addressed in a separate agreed-upon procedures report. Conditions 11 and 24 are or will be the subject of separate assertion statements of management and attestation reports of Ernst & Young LLP. Our reporting herein, as it relates to the accuracy of the Company's annual compliance report filed on March 15, 2000 discussed in management's assertion 26, is limited to the scope of work described herein for Merger Conditions 1, 11 and 24 at the direction of the FCC.

[1] *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules,* CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999).

In our opinion, management's assertion that the Company complied with the Merger Conditions (considering the Company's understanding of the Merger Conditions as described in the second paragraph below), including the Company's filing of an accurate annual compliance report, the Company providing the FCC with timely and accurate notice pursuant to specific notification requirements and the Company providing telecommunications carriers and regulators with accurate and complete performance data and limited as discussed in the preceding paragraph, during the period October 8, 1999 through December 31, 1999, is fairly stated, in all material respects except for certain instances of noncompliance regarding the accuracy of performance data provided to telecommunications carriers and regulators and the accuracy of the Company's annual compliance report, both of which are discussed in the first paragraph below.

As discussed in assertion 7 of management's assertion, the Company was required to report, on a monthly basis, operational performance in 20 measurement categories specified in the Merger Conditions. Certain of these measurements contained errors in the monthly reports that were restated after the initial filing or corrected on a prospective basis as described in Attachment A to management's assertion. Additionally as discussed in assertion 26c of management's assertion, the Company's annual compliance report did not appropriately disclose all errors related to performance measurements.

As discussed in assertion 26b of management's assertion, the Company did not file in one instance a tariff change within three business days of the effective date of an interconnection agreement between the Company and its Advanced Services affiliate. In this instance, it was the Company's understanding that such tariff filing was not required until all specified requirements identified in Paragraphs 6(d) and 6(f) of the Merger Conditions were satisfied. The Company's understanding of this situation and its compliance is explained in a letter dated February 7, 2000 from Mr. Charles Foster to Mr. David Solomon and Mr. Lawrence Strickling of the FCC. Based on this understanding, this situation was not deemed to be noncompliance with the Merger Conditions.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

August 31, 2000